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SC PUBLIC SERVICE
COMMISSION

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA

DOCKET NO. 2012-94-S

IN RE:

Application of Palmetto Wastewater
Reclamation LLC d/b/a Alpine Utilities
for adjustment of rates and charges
for, and modification to certain terms
and conditions related to
the provision of sewer service.

DIRECT TESTIMONY
OF
DONALD H. BURKETT

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Donald H. Burkett. My principal place of business is 3101
Sunset Boulevard, West Columbia, South Carolina 29171.

Q. WHERE ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed as the Executive Vice President of Burkett Burkett &
Burkett Certified Public Accountants, P.A. where I have worked since 1976.

**Q. WHAT IS YOUR EDUCATIONAL BACKGROUND AND TRAINING
AND WORK EXPERIENCE?**

A. I graduated in 1974 from the University of South Carolina with a Bachelor
of Science Degree in Accounting. I am a CPA licensed to practice accounting in
South Carolina and a member of the American Institute of Certified Public
Accountants. From 1974 until 1976, I worked for a regional CPA firm before

1 founding Burkett Burkett & Burkett Certified Public Accountants, P.A. in 1976. I
2 am a past President of the South Carolina Association of Certified Public
3 Accountants. I currently serve as Chairman of the South Carolina Board of
4 Accountancy, which regulates the licensure and practice of accounting in the State
5 of South Carolina. I have been involved with auditing, tax return preparation,
6 financial services, and advisory services for my entire career for a variety of
7 clients, including regulated utilities.

8
9 **Q. WHAT ARE YOUR JOB RESPONSIBILITIES IN YOUR CURRENT**
10 **POSITION?**

11 A. As Executive Vice President of Burkett Burkett & Burkett Certified Public
12 Accountants, P.A. I am responsible for coordinating the day-to-day activities of
13 approximately 15 professional employees.

14
15 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC**
16 **SERVICE COMMISSION OF SOUTH CAROLINA?**

17 A. Yes. My recent testimonial history is attached hereto as Exhibit DHB-1.
18 As noted therein, I have testified before the Commission on behalf of the
19 applicant in the most recent rate relief proceedings involving the Alpine Utilities
20 system, which is now owned by Palmetto Wastewater Reclamation LLC, or
21 "PWR", which is the applicant in this proceeding.

1 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
2 **PROCEEDING?**

3 A. The purpose of my testimony is to support the application for rate relief of
4 PWR, which I will also refer to from time to time in my testimony as the
5 ‘Company’, by addressing its proposed allocation of corporate overhead costs from
6 its upstream ownership entities for ratemaking purposes.

7
8 **Q. WHAT CORPORATE OVERHEAD COSTS ARE PROPOSED TO BE**
9 **ALLOCATED TO THE COMPANY ?**

10 A. The costs comprising the proposed corporate overhead allocation include
11 staff salaries, payroll taxes, benefits, audit, tax return preparation, directors’ fees
12 and expenses, sponsor monitor fees, contract services, travel, legal services, office
13 costs, insurance, and communications.

14
15 **Q. DO YOU BELIEVE THE ALLOCATION OF CORPORATE OVERHEAD**
16 **PROPOSED BY PWR IN THIS PROCEEDING IS PROPER?**

17 A. Yes. PWR is owned by Ni South Carolina LLC, which is in turn owned
18 by Ni America Capital Management LLC. Ni America Capital Management
19 LLC, through various subsidiary entities, owns seven utility systems operating in
20 South Carolina, Florida and Texas, all of which receive services from it and from
21 its operating service subsidiary, Ni America Operating LLC. The costs of Ni
22 America Capital Management LLC and Ni America Operating LLC, are
23 properly includable in the costs of these downstream utilities if they are

1 consistently allocated. The customers of the utilities benefit from receiving the
2 expertise, the management, tax, and accounting services, and the corporate
3 governance which the upstream entities provide, but bear only a share (or
4 allocation) of the costs associated with providing these resources. This saves
5 customers from bearing in rates 100% of the costs of a separate, full time staff and
6 other resources and expenses incurred in the management of PWR, which they
7 would have to do if PWR maintained a separate, full time staff to discharge these
8 functions. These overhead costs are necessary for any well run utility and when
9 shared through corporate overhead allocations, it results in economies of scale and
10 a savings to the customers.

11
12 **Q. YOU MENTIONED YOUR INVOLVEMENT AS A WITNESS IN THE**
13 **LAST RATE RELIEF PROCEEDING INVOLVING THE ALPINE**
14 **SYSTEM; IS THE ALLOCATION OF COSTS THAT IS SOUGHT BY**
15 **PWR IN THIS CASE THE SAME TYPE OF ALLOCATION THAT WAS**
16 **ACCEPTED IN THAT CASE?**

17 **A.** No, but the principle behind the allocation in each instance is similar. In
18 the previous rate case, some expenses such as management salaries, rental, and
19 shared equipment were allocated between Alpine Utilities, Inc. and its affiliate,
20 Woodland Utilities Inc., which were under common ownership and control, but
21 not in a parent-subsidary relationship. That allocation reflected the sharing of
22 certain expenses between two operating entities and an appropriate assignation of
23 costs to each. Customers benefitted from that allocation as it avoided the

1 duplication of costs for each entity. In this case, the allocation is between an
2 operating utility entity and upstream entities providing services that are no longer
3 required to be incurred at the operating level and can be incurred more
4 economically at the upstream company level as it involves incurring costs for
5 multiple operating utility entities subject to economies of scale.

6
7 **Q. ARE UTILITY HOLDING AND SERVICE COMPANY STRUCTURES**
8 **AND ASSOCIATED COST ALLOCATIONS COMMON IN SOUTH**
9 **CAROLINA?**

10 A. Yes. There are a number of regulated utilities operating in this State
11 which are owned by holding companies which also own service companies and
12 whose costs are allocated to their downstream entities for ratemaking purposes.
13 And this is something that South Carolina shares in common with many
14 jurisdictions.

15
16 **Q. IS IT YOUR OPINION THAT THE UTILITY HOLDING AND SERVICE**
17 **COMPANY STRUCTURE AND THE ASSOCIATED COST**
18 **ALLOCATIONS TO THE OPERATING UTILITIES THEY OWN OR**
19 **SERVE IS CONSISTENT WITH THE PUBLIC INTEREST?**

20 Yes, that is my opinion. Customers benefit from the utility holding
21 company and service company structure because it enables utilities to provide
22 their services at a lower overall cost than would otherwise have to be incurred and
23 passed on in rates. Also, it helps to insure the financial viability of operating

1 utilities and promotes economic development in the state by attracting necessary
2 capital for utility infrastructure that holding companies can obtain and provide to
3 downstream entities at a lower cost than they would incur if they sought capital on
4 their own. Further, because of the ubiquitous nature of utility holding and service
5 company arrangements in this country, economic development is served by the
6 recognition of such cost allocations. If utility holding and service companies are
7 not allowed to recover their costs appropriately incurred in support of their
8 downstream entities in South Carolina, they will not invest in South Carolina and
9 utility systems, such as the PWR Alpine system, will lack adequate capital needed
10 to improve aging facilities. When capital investment is lessened, the economic
11 benefits which are associated with it, including jobs and tax revenue, are also
12 lessened. Thus, recognition of valid corporate overhead allocations for utilities in
13 South Carolina promotes economic development.

14
15 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

16 **A.** Yes. It does.

Exhibit DHB-1

1. Alpine Utilities Rate Case; SCPSC Docket No. 2008-190-S
2. Woodland Utilities, Inc. Adjustment of Rates and Charges; Docket No. 2007-61-S – Order No. 2007-473
3. Goat Island Water and Sewer Co., Inc. Increase in Rates and Charges; Docket No. 2008-142-W/S